



MEMORANDUM - OFFICE OF RECOVERY & REINVESTMENT

To: JoAnna Richard, Deputy Secretary – Wisconsin Dept. of Workforce Development

From: Chris Patton, Director *CP*

Re: Financial Review – Workforce Connections, Inc.

Date: March 15, 2010

The Wisconsin Office of Recovery and Reinvestment (ORR) contracted with Jefferson Wells to conduct on-site reviews of non-profit entities that received Recovery Act funding from more than one federal/state program. In summary, the review was primarily financial in scope and encompassed risks and mitigating control activities related to the Entity Level Control Environment, Financial Reporting, Purchasing and Disbursements, Banking/Treasury, HR/Payroll, and Fixed Assets processes, and comprised of the following activities:

- Review of policies, procedures, and documented controls.
- Review of external auditor reports and evidence for remediation of findings.
- Inquiry of management to acquire a general understanding of entity relationships, transaction flows, and monitoring controls.
- Observation of transaction flows and control activities via process walkthroughs.
- Review of system access reports for adequate segregation of duties.
- Review for evidence of operational effectiveness of key controls, including account reconciliations, transaction authorizations, and appropriate disposition of assets.
- Review of transaction detail on a sample basis for evidence that funds have been appropriately accounted for and/or disbursed.

The reviewers met with both management and financial staff to review the activities and controls associated with Recovery Act grants or the administrative financial controls in place prior to receipt of the grant funding. The common grants that have been issued to Workforce Connections, Inc., by various State of Wisconsin agencies include the following:

PROGRAM	STATE/ FEDERAL AGENCY	AWARD AMOUNT
WIA Adult, Dislocated, and Youth Workers	DWD/DOL	\$1,067,049
SCSEP American Recovery Act	DWD/DOL	\$52,748

Additionally, some entities have been awarded funds directly from a federal agency and the controls and procedures associated with these awards have also been reviewed at a high level.

The on-site review of Workforce Connections, Inc., was performed from February 10th through February 12th, 2010. The review was primarily financial in scope, and focused on the agency's capabilities to mitigate the risk of fraud, waste, and abuse through internal controls including but not limited to management oversight, segregation of duties, and restricted access.

As stated in more detail in the attachment from Jefferson Wells, the review focused on policies and procedures, past audit reports, management and board engagement, transaction flows, system access, operational effectiveness of key controls and transaction details.

Upon completion of the review and examination of the supporting documentation, no instances of fraud, waste or abuse were noted. However, the following observations were noted by the reviewers along with recommendations suggested by ORR that may assist in mitigating any risk associated with the observations:

Segregation of Duties/System Access

Observation: A lack of segregation of duties increases the risk that errors and/or fraudulent activities will be perpetrated and not detected timely. Noted deficiencies include:

1. Accounting System – The Finance Director's independent review of accounting transactions is critical to mitigate the risk of processing inaccurate or fraudulent transactions in the accounting system (Kintera Fundware). However, the Finance Director's independent review has been compromised since the Finance Director also has system access to prepare or edit the transactions that are reviewed. This level of system access may increase the risk that inaccurate or invalid transactions could be processed by the individual and remain undetected without independent review.

Although the financials are reviewed by the Executive Director and Program Directors who do not have access to post journal entries, such a mitigating control does not provide a comparable level of oversight as does an independent review of journal entries (by an individual without access to prepare/edit journal entries).

2. Accounts Payable – Similar to the observation related to the accounting system, the primary reviewer of disbursements, who is the Finance Director, also retains system access to add new vendors and process invoices for payment.
3. Internet Banking/ACH – The Finance Director and one of the accountants have sole authorization to process outgoing ACH transactions and also retain access to post journal entries to the general ledger and process invoices to accounts payable in Kintera Fundware. The internet banking system is not currently programmed to require electronic dual authorization to process an outgoing ACH, meaning that the current system allows the same person to initiate and send an outgoing ACH. In addition, there are no procedures that

require the bank to call back and validate the ACH with someone who does not have access to process a transaction. The Finance Director and Accountant's access to process an outgoing ACH, combined with system access to perform accounting and accounts payable transactions plus bank reconciliation responsibilities, poses the risk that these individuals could both perpetrate and conceal fraudulent fund appropriations

Recommendation: Best practices would include maintaining a segregation of duties or restricting system access to those with reviewer responsibility. Alternatively, an independent review can be assigned to another independent individual without relevant system access and who also possesses competency to perform the review. In addition, persons performing reviews should both sign and date the documents showing when the review was performed.

As a state agency with the responsibility for ensuring that sub recipients comply with complex requirements associated with the granting of Recovery Act funds, this information is being forwarded to your attention so that you attend to the issues that may impact your specific program. ORR expects that each agency will take the appropriate steps to mitigate fraud, waste and abuse as it relates to Recovery Act funding. For your convenience, I have enclosed a copy of the Field Review Program Worksheet, which details the scope and results of the review. A copy of this memorandum is also being provided as a courtesy to the Workforce Connections, Inc.

As a result of this review, if you require sub recipients to demonstrate any change of policy or procedure, please forward a copy of any correspondence to the attention of the Recovery Office.

If you have any questions, you can contact Dan Subach at (608) 266-7602 or Art Stauffacher at (608) 267-3672. Thank you for your cooperation in assisting us in assuring the public of the accountability and transparency of Recovery Act funds.

cc: Jerry Hanoski, Workforce Connections, Inc.